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Exhibit B - Hosting Services

1. netLibrary Services.

- (a) Services. netLibrary will use reasonable commercial efforts to perform the Services and assure that the Services are performed in a manner consistent with the specifications contained in this Exhibit and Schedule B-1 - the Technical Specification.
- (b) netLibrary and Recorded Books agree that the Services will be used to provide Subscriptions to Bundled Collections to Recipients.
- (c) Creation of Co-Branded Website. Co-Branded Website Creation Activities are discussed in Section 3.(b) of Schedule B-1:
 - (i) Recorded Books will pay netLibrary 50% of the cost of establishing a co-Branded Web Site. The estimated expense for this activity is \$25,000.
- (d) Hosted Services. Hosted Service Activities include:
 - (i) The interface and NL System activities reasonably necessary to ensure the site functionality specified in Section 3 and 4 of Schedule B-1.
 - (ii) The network and infrastructure activities reasonably necessary to ensure site maintenance and stability, and to avoid material disruptions in service, including the activities specified in Section 5 of Schedule B-1.
 - (iii) The activities reasonably necessary to ensure the performance of the order processing, submittal, fulfillment, and customer support functions specified in Section 6 of Schedule B-1.
 - (iv) A reasonable quantity of periodic training, account/project management, database management and report management.
 - (v) A reasonable quantity of customer support to Recipients, with said support including:
 - (1) Responding in a timely fashion to Recipients' Support Queries.
 - (2) Maintaining resources to respond to Recipients' Support Queries.
 - (3) Maintaining documentation of netLibrary's responses to Recipients' Support Queries.
- (e) Transition of Services.
 - (i) In the event of termination, netLibrary will use good faith commercially reasonable efforts to assist with, and will make its staff available to assist with, the transition of Services to Recorded Books, or a third party specified by Recorded Books. netLibrary will be compensated based on mutually agreeable hourly rates, not to exceed the rate for Additional Services set forth in Section 3 (a) of Exhibit B. If Recorded Books terminates the Agreement because netLibrary has materially breached the Agreement, then netLibrary will waive the fees for a reasonable amount of transition services for a reasonable period of time not to exceed 60 days after the Termination of the Agreement.
 - (ii) In the event of termination, netLibrary and Recorded Books must return all confidential information or certify in writing that they have destroyed it. netLibrary will return all disks or other tangible media provided to it by Recorded Books or will certify in writing that it has destroyed all of the disks or other tangible media. netLibrary will shut down the co-Branded website.
 - (iii) netLibrary will on the effective date of termination cease selling and marketing Subscriptions to the Bundled Collection(s) but netLibrary may continue to host and distribute copies of NL Electronic Versions of the Audio Books contained in the Bundled Collection(s) to Recipients with Subscription Terms that expire after the Termination of the Agreement if netLibrary gives Recorded Books written notice of the identity of these Recipients. Upon expiration of all Subscriptions that were active at the time the Agreement terminated, netLibrary will send

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written notice to Recorded Books confirming that all Subscriptions that were active at the time the Agreement terminated have expired and that netLibrary has ceased distributing NL Electronic Versions of the Audio Books contained in the Bundled Collection(s) to Recipients.

(f) Additional Services

If the parties mutually agree netLibrary should perform any additional services in order to modify the co-branded website to support the Recorded Books-netLibrary Offering, then Recorded Books will pay netLibrary 50% of the cost of the additional services.

(g) Invoices/Manner of Payment

netLibrary will provide Recorded Books with a monthly invoice, in a mutually agreeable format and level of detail, stating all amounts due from Recorded Books to netLibrary under this Exhibit. Recorded Books will pay netLibrary within 30 days following the end of the invoice month.

2. Recorded Books Obligations

(a) Recorded Books will perform the following activities in order to obtain Services in accordance with the Agreement:

- (i) Recorded Books will cooperate with netLibrary and will provide the information or support reasonably necessary for netLibrary to perform Production Activities, Co-Branded Website Creation Activities, Hosted Service Activities, Trial Activities, if any; and Additional Services, if any.
- (ii) Recorded Books will use the online order form to notify netLibrary to establish, terminate, or otherwise modify Recipient accounts, and will submit the documentation specified in Section 6 (a)(i) of Schedule B-1.

(b) Opportunity to Review co-Branded site and NL System

After the co-branded site and NL System, in netLibrary's reasonable opinion, satisfy the technical requirements described in Exhibit B and Schedule B-1 and the NL System is ready to fulfill orders for Audio Book Subscription(s); netLibrary will give Recorded Books written notice that the co-branded site and NL System are ready for Recorded Books' review. Recorded Books will have five (5) business days from receipt of such notice in which to review the co-branded site and NL System. If Recorded Books' review of the co-branded site and NL System raises any concerns, then Recorded Books will give written notice of its concerns to netLibrary and the parties will promptly organize a conference call or meeting to discuss these concerns.

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Schedule B-1 – Technical Specification

1. Definitions

(a) As used in this Agreement:

- (i) "Checkout" means the process by which the NL System checks out a nL Electronic Version of an Audio Book to a Patron's netLibrary account, Downloads the Audio Book file to a Patron's computer or other device, and Downloads the Audio Book File License to the Patron's computer or other device. A Checkout is good for 21 days. Each checkout will trigger a royalty payment under Section 2 (d) of Exhibit C.
- (ii) "Download" means the process by which the NL System Downloads an Audio Book file to a Patron's computer or other device. There may be multiple Downloads due to interruptions, Download failures, etc. related to a single Checkout but there should not be multiple Checkouts related to a single Download. In other words, during the Checkout and Renewal period(s), only one Checkout and multiple Renewals could be related to a single Download.
- (iii) "File License" means an electronic file containing the license allowing playback of an Audio Book file.
- (iv) "Renewal" means the action Patron takes to renew a File License for an Audio Book File within 24 days of the grant of the File License. A Renewal is not counted as a Checkout. A Renewal does not trigger a royalty payment under Section 2 (d) of Exhibit C.

(b) Any capitalized term appearing in this Schedule without a definition will have the meaning attached to it in the Agreement.

2. Audio Books Collection and Access Model

- (a) netLibrary and Recorded Books have agreed to grant access to Authenticated Patrons of a Recipient that purchases the Recorded Books/netLibrary Audio Book offering. The parties have further agreed upon Digital Rights Management provisions that apply to the Recorded Books/netLibrary Audio Book offering and are listed in Section 4 (b) below. Patrons can either Checkout and Download titles, or Renew previously Downloaded titles.
- (b) The price of the Recorded Books/netLibrary Audio Book offering is flat fee based on a "not to exceed" number of Checkouts as determined to be reflective of general circulation trends for that size and type of Recipient. The price of the Recorded Books/netLibrary Audio Book offering is further described in Exhibit C to the eContent Production and Distribution Agreement between Recorded Books and netLibrary. As Checkouts are a unit of measure for pricing, netLibrary will not allow Checkouts if a Patron has a current File License at the time of the request. If a Patron with a current File License for an Audio Book clicks the Audio Book Download Link for the Audio Book, then the NL System will renew the File License for the Audio Book File.

3. Interface

- (a) netLibrary will offer 3 access points from which Patrons of Recipients that purchase the Recorded Books/netLibrary Audio Books offering will be able to discover and download Audio Books. They will be able to discover and download Audio Books from:
 - (i) the co-branded netLibrary / Recorded Books site,
 - (ii) MARC records for Audio Book titles loaded in their library's catalog or in OCLC's WorldCat catalog, and
 - (iii) their library's affiliated netLibrary site, if applicable.
- (b) *netLibrary / Recorded Books Site*

netLibrary will design and develop a new co-branded site specific to the Recorded Books/netLibrary Audio Book offering. The site will contain information about the offering, the ability to search/browse the offering, links to a Recipient's affiliated netLibrary site for Checkout and Download, links to the Recorded Books site and the netLibrary site, a login to access a Recipient's affiliated netLibrary site, and links to purchase Audio Book players from Recorded Books.

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(c) *MARC Records for Audio Books*

netLibrary will provide Recipients that purchase the Recorded Books/netLibrary Audio Book offering with MARC records for all Audio Books in the offering at no additional charge.

(d) *Affiliated netLibrary Site*

- (i) If a Recipient already possesses a netLibrary Site (because it has previously purchased eContent from netLibrary), and the Recipient purchases the Recorded Books/netLibrary Audio Book offering, then netLibrary will expand the Recipient's affiliated netLibrary site to include Audio Books.
- (ii) If a Recipient does not already possess a netLibrary Site (because it has not previously purchased eContent from netLibrary), and the Recipient purchases the Recorded Books/netLibrary Audio Book offering, then netLibrary will create an affiliated netLibrary site for the Recipient. Because the Recipient has not purchased any other eContent from netLibrary, the affiliated netLibrary site will only include the Audio Books that are part of the Recorded Books/netLibrary Audio Book offering.

4. NL System

(a) When a Patron clicks the Audio Book Download Link on one of the Audio Book Interfaces, the NL System will perform the following steps:

- (i) the NL System will check out the Audio Book to the Patron for 21 days.
- (ii) the NL System will deliver a license to access the Audio Book for the specified Checkout period to the Patron's computer or other device.
- (iii) the NL System will Download the audio book file from the netLibrary to the Patron's computer or other device one of two different encoding levels: low band-width (7 Kbps) and high band-width (37 Kbps).

(b) *DRM Standards* - Recorded Books and netLibrary have agreed on the following DRM standards.

- (i) DRM will be engaged to limit the number of audio books an authenticated Patron can check out at one time to 3.
- (ii) DRM will be engaged to restrict the Checkout period to 21 days.
- (iii) DRM will be engaged to restrict CD burning.
- (iv) DRM will not be engaged to restrict Audio Book File transfers between devices, but DRM will be engaged to restrict the maximum number of Audio Book File transfers from one device to another to 3.
- (v) DRM will not be engaged to restrict the number of times a file can be played during the Checkout period.
- (vi) DRM will not be engaged to restrict Renewals.

(c) At this time, the NL System will only offer Audio Books in WMA format.

(i) The following is a table listing software programs that support secure WMA playback.

Software Program	Supported Operating Systems
Microsoft Windows Media Player 9 www.microsoft.com/windows/windowsmedia/	<ul style="list-style-type: none"> • Microsoft Windows (98 SE, Me, 2000, XP) • Mac OS X
Musicmatch Jukebox 8.2 www.musicmatch.com	<ul style="list-style-type: none"> • Microsoft Windows (98 SE, Me, 2000, XP) • Mac OS X
Nullsoft Winamp 5 www.winamp.com	<ul style="list-style-type: none"> • Microsoft Windows (98 SE, Me, 2000, XP)

(ii) The following is a brief listing of some of the more popular portable music devices that support secure WMA playback.

- Creative Nomad series player(s), including Jukebox(s).

Jukebox Zen(s), and Jukebox MuVo(s)

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- Dell Digital Jukebox series player(s)
- Gateway DMP series player(s)
- iRiver iFP series player(s)
- irock! series player(s)
- RCA RD player(s)
- Rio series player(s), including 800, 900, Cali, Chiba, Eigen, Fuse, Karma, Nitrus, Sport, and others
- Samsung Yepp series player(s)

For a full listing, please visit:

www.microsoft.com/windows/windowsmedia/9Series/GettingStarted/Personalization/CoolDevices.asp

(d) Eventing and Reporting

- (i) The NL System will track and allow reporting of the following data points:
- Number of Checkouts – Used by Recorded Books for royalty payment to authors. Used to determine institutional license fees by size. A cap will be placed on maximum number of Checkouts for a library of a particular size.
 - Number of Renewals – In aggregate with Number of Checkouts used to report to Recipients the number of accesses of Audio Books by Patrons
 - Number of Audio Book File Downloads – Used internally by netLibrary for infrastructure support.
- (ii) If a need for reports of other types of data (e.g. the hottest search terms, page views, click-throughs to other sites, site visits) becomes apparent, then Recorded Books and netLibrary will mutually agree upon the schedule and budget for adding such reports.

5. Network and Infrastructure

- (a) Storage - In the initial phases of this project, netLibrary will use existing hardware to satisfy Audio Book File storage needs. netLibrary is in the process of implementing a Storage Area Network (SAN). The SAN will be used as the long term storage solution for Audio Book Files
- (b) Networking/Bandwidth Usage – In the initial phases of this project, netLibrary will use existing ISP routers for Audio Book File Download traffic. As Recipients purchase Audio Book Subscriptions, bandwidth demand is likely to increase. netLibrary will monitor Audio Book File Download activities and will take the steps that are commercially reasonable to ensure that it has adequate bandwidth to satisfy expected bandwidth demand.

6. Order Processing, Submittal, Fulfillment, and Customer Support

(a) Order Processing and Submittal

- (i) As Recorded Books Sales Agents sell Subscriptions to the Bundled Collection(s), they will prepare, obtain, and submit to Recorded Books the documentation necessary to document the Sale of the Subscription(s). This documentation will include a completed order form, a Purchase Order from the Recipient purchasing the Subscription(s), and a signed copy of a Library Audio Book Agreement. Recorded Books will collect this information and submit it to netLibrary on a regular basis.
- (ii) As OCLC Sales Agents sell Subscriptions to the Bundled Collection(s), they will prepare, obtain, and submit to netLibrary the documentation necessary to document the Sale of the Subscription(s). This documentation will include a completed order form, a Purchase Order from the Recipient purchasing the Subscription(s), and a signed copy of a Library Audio Book Agreement.

(b) Order Fulfillment and Customer Support

- (i) NetLibrary will establish a communication channel for receiving, accepting, fulfilling, and recording orders for Audio Book Subscription(s) submitted by Recorded Books or OCLC

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- (ii) netLibrary will use its Online Account Management System to fulfill orders for Audio Book Subscription(s). The Online Account Management System consists of two sections: the account set-up and maintenance portion and the title fulfillment portion. netLibrary will enter and update information in the account management system as necessary in order to provide services to Recipients.
- (iii) Organization Settings – netLibrary and Recorded Books have agreed to use the following settings to standardize the Patron experience:
 - Access – All titles will be offered to Recipients with access on the basis described in Exhibit C, Section 2.(a).
 - Patron Account Creation – Individual Patrons will be able to create their own accounts.
 - Welcome Email – The Online Account Management System will send a Welcome email to Recipients.
 - Contact Us Emails – The Online Account Management System is designed to direct all emails submitted by Patrons via "Contact Us" to netLibrary.
- (iv) Customer Support - NetLibrary will use commercially reasonable efforts to provide Customer Support to and will serve as the primary point of contact for Recipients that purchase Subscriptions to the Bundled Collection(s). netLibrary will use existing Customer Support processes to perform this obligation.
- (v) Reporting – netLibrary will provide access to the netLibrary Library Resource Center (LRC) to Recorded Books. Recorded Books can use the LRC to review information about Subscriptions purchased by Recipients and retrieve reports about Audio Book usage by Patrons. The LRC is netLibrary branded. Recorded Books can use the LRC to:
 - Administration – obtain information about Recipient Patron accounts and authentication information (IP's on file for an organization).
 - Reporting – obtain two types of reports - usage reports and collection reports.
 - Recorded Books will be able to run usage reports for Recipients on an aggregated and single Recipient basis. Usage report types include popular audioBooks, Activity by Title, and Activity by Subject. Collection reports include a listing of owned titles. Recorded Books may Download all LRC reports in a tab-delimited format.

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Exhibit C – Audio Book Commercial Terms

1. Special Terms Applicable to Audio Books.

- (a) The Subscription sales model described in this Agreement is the exclusive means by which netLibrary will market, distribute, and sell to Recipients digital electronic versions of Audio Books that can be downloaded via the Internet. The Subscription sales model described in this Agreement is the exclusive means by which Recorded Books will market, distribute, and sell to Recipients digital electronic versions of Audio Books that can be downloaded via the Internet. netLibrary and Recorded Books will allow other content providers to contribute content and to participate in this Subscription sales model on equivalent terms. If, without Recorded Books' consent, netLibrary signs an Agreement to allow another content provider to contribute Audio Book content and to participate in a Subscription sales model to which Recorded Books is not a party, then, subject to Section 1 (e) of Exhibit B, Recorded Books may give netLibrary written notice terminating this Agreement immediately.
- (b) Recorded Books and netLibrary will agree in writing on the nL Electronic Versions of Publisher Products that comprise a Bundled Collection. Recorded Books and netLibrary may agree in writing to add additional nL Electronic Versions of Publisher Products to a Bundled Collection at any time.
- (b) A Recipient that purchases a Subscription to a Bundled Collection will receive an annual license to access the Bundled Collection. The Recipient will not own any other rights in the Bundled Collection.
- (c) A Recipient that purchases a Subscription to a Bundled Collection will receive concurrent access for its end-users to the Bundled Collection on the basis specified in Exhibit C Section 2 (a).
- (d) netLibrary and Recorded Books will meet periodically, but no less than once every 6 months, to review both parties' performance under this Agreement. Such meetings will take place via telephone or other means mutually agreed upon by the parties. Each party will bear its own costs incurred in connection with such meetings. The topics that may be discussed at these meetings include, but are not limited to: sales, technical, marketing, and promotional activities; the composition of the Bundled Collection; the List Price(s) of a Subscription to the Bundled Collection, and expansion of the scope of this Agreement to cover other types of digital content (e.g. music or video)

2. Subscription Pricing and Payments.

- (a) List Price of Subscription to Bundled Collection.
 - (i) Recorded Books and netLibrary will mutually agree upon the Standard and Promotional List Price(s) upon which they will offer a Subscription to the Bundled Collection. The parties may mutually agree to change these prices or the applicable qualifying criteria at any time, but otherwise, they will remain in effect for the initial Term of the Agreement. Any List Price increase will only be effective as to Subscription sales completed after the effective date of the price change.
 - (ii) The parties have agreed that the List Price for a Subscription to the Bundled Collection for the first year of this Agreement will be based upon the overall Circulation of the Recipient purchasing the Subscription.
 - (1) Libraries are classified into 1 of 5 groups based on their circulation. They shall be charged a yearly institutional license fee based on this classification

Table 2.1

	Public (based on Annual Circulation)	Academic (based on Full Time Equivalents (FTE))	Special

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Category 1:	under 100,000	1,999 or less	The parties have agreed to address sales to Special Libraries on an Individual Case Basis.
Category 2:	100,000 to 500,000	2,000-4,999	
Category 3:	500,000 to 1,000,000	10,000 or more	
Category 4:	1,000,001- 5,000,000	Not Applicable	
Category 5:	5,000,000 or more	Not Applicable	

- (2) The Standard List Price(s) for a Subscription to the Bundled Collection will apply unless a Library purchasing a Subscription meets the qualifying criteria for the Promotional List Price(s). The Standard List Price(s) for a Subscription to the Bundled Collection for the first year of this Agreement are as follows:

- (a) Category 1: \$3,000 per year (up to 3,500 check-outs)
- (b) Category 2: \$6,000 per year (up to 7,500 check-outs)
- (c) Category 3: \$12,000 per year (up to 15,000 check-outs)
- (d) Category 4: \$30,000 per year (up to 50,000 check-outs)
- (e) Category 5: \$60,000 per year (up to 100,000 check-outs)

- (3) The Promotional List Price(s) for a Subscription to the Bundled Collection will apply to Libraries that purchase a Subscription to the Bundled Collection between October 1, 2004 and December 31, 2004. The Promotional List Price(s) for a Subscription to the Bundled Collection for the first year of this Agreement are as follows:

- (a) Category 1: \$2,500 per year (up to 3,500 check-outs)
- (b) Category 2: \$5,000 per year (up to 7,500 check-outs)
- (c) Category 3: \$10,000 per year (up to 15,000 check-outs)
- (d) Category 4: \$25,000 per year (up to 50,000 check-outs)
- (e) Category 5: \$50,000 per year (up to 100,000 check-outs)

- * (4) A cap will be placed on maximum number of checkouts for a Library. The Patron of a Library that purchases a Subscription to a Bundled Collection may check-out up to the number of Audio Books specified in the previous table for the Category of access purchased by the Library, but the NL System will not allow Patrons of a Library that purchases a Subscription to a Bundled Collection to check-out more than the number of Audio Books specified in the previous table for the Category of access purchased by the Library.

- (5) If the Patrons of a Library that purchases a Subscription to a Bundled Collection check out the maximum number of Audio Books specified in the table above for the Category of access purchased by the Library, then the party that sold the Subscription will contact the Library to provide a quotation for additional check-outs.

- (iii) The parties have further agreed that different terms may be agreed to for other publishers' audio books, music content, or video content.

(b) Billing and Collections.

- (i) Recorded Books will inform netLibrary promptly after completing each Subscription Sale and will submit all documentation necessary in order to establish Subscription Service for a Recipient that has purchased a Subscription from Recorded Books.
- (ii) netLibrary will bill and collect for sales of Subscriptions by netLibrary or Recorded Books.
- (iii) Recorded Books will assist in collection efforts for libraries to whom Recorded Books has sold Subscriptions.

(c) Royalty Expense.

Form PCLA 05/00/02 (final)
 Audiobook Production and Distribution Agreement
 between netLibrary and Recorded Books - 05/15/04
 (final) protects netLibrary's Production and
 Distribution Agreement between netLibrary and
 Recorded Books - 05/15/04 (final) protects netLibrary's

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- (i) Before either party collects revenue from the Sale of Subscriptions, netLibrary will calculate the Maximum Royalty Expense and the Net Subscription Price.
- (ii) The Maximum Royalty Expenses represents the Maximum amount of Royalties that may be accrued in connection with a Subscription. Maximum Royalty Expenses are calculated by multiplying the maximum number of checkouts associated with any particular Library Category by .25 cents per checkout.

Table 2.2

Library Category	List Subscription Price	Maximum Number of Check-Outs	Maximum Royalty Expense	Net Subscription Price
Category 1	\$3,000 per year	(up to 3,500 check-outs)	\$ 875.00	\$ 2,125.00
Category 2	\$6,000 per year	(up to 7,500 check-outs)	\$ 1,875.00	\$ 4,125.00
Category 3	\$12,000 per year	(up to 15,000 check-outs)	\$ 3,750.00	\$ 8,250.00
Category 4	\$30,000 per year	(up to 50,000 check-outs)	\$12,500.00	\$ 17,500.00
Category 5	\$60,000 per year	(up to 100,000 check-outs)	\$25,000.00	\$ 35,000.00

- (iii) The Net Subscription Price is calculated by subtracting the Maximum Royalty Expense from the List Subscription Price.
- (d) Calculation of Monthly Royalty Expense.
 - (i) netLibrary will calculate the Monthly Royalty Expense for each active Subscription by multiplying the total number of checkouts for each active Subscription during any given month by .25 cents per checkout.
 - (ii) netLibrary will deduct the Monthly Royalty Expense for each active Subscription from the Maximum Royalty Expense for that Subscription and will calculate the total Monthly Royalty Expense by adding up the Monthly Royalty Expense for all active Subscription(s).
 - (iii) netLibrary will include the total Monthly Royalty Expense in each monthly payment it makes to Recorded Books under Section 2.(f).
 - (iv) Recorded Books will be solely responsible for all royalty, copyright, commissions, or other compensation payments due to the authors or owners of any right, title, or interest in or to the Publisher Products in connection with the sale of Subscriptions to Bundled Collections under this Agreement. This provision applies regardless of whether netLibrary or Recorded Books.
 - (v) At the conclusion of each Subscription's annual Term, the parties have agreed to split any difference remaining after the total monthly Royalty Expense(s) that were paid during the Subscription's annual Term are subtracted from the Maximum Royalty Expense on the following basis.

Recorded Book's portion of any remaining difference	netLibrary's portion of any remaining difference
55%	45%

- (e) Allocation of Net Subscription Price